

Message Text

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ACTION EB-07

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TO SECSTATE WASHDC IMMEDIATE 7676

INFO USMISSION USBERLIN

AMEMBASSY LONDON

AMEMBASSY PARIS

AMSBASSY MOSCOW 0720

C O N F I D E N T I A L SECTION 01 OF 03 BONN 01798

E.O. 11652: GDS

TAGS: EAIR, WB, FR, UK, US, GW

SUBJECT: PROPOSED IGS ROUTE SWAP

REF: A) BONN 1729; B) BONN 1732

1. SUMMARY: THIS COMMUNICATION SETS FORTH THE ELEMENTS WHICH WE BELIEVE SHOULD BE TAKEN INTO CONSIDERATION IN AN EVALUATION OF THE PROPOSED PAA/BA ROUTE SWAP. WHILE WE REQUIRE FURTHER INFORMATION FROM THE AIRLINES BEFORE ARRIVING AT A FIRM EVALUATION OUR TENTATIVE VIEW SUGGESTS THAT THE PROPOSAL COULD TURN OUT TO BE THE LEAST UNDESIRABLE OF SEVERAL UNATTRACTIVE ALTERNATIVES PRESENTLY CONFRONTING THE IGS. ON THE OTHER HAND, WE SEE NEW PROBLEMS INHERENT IN SUCH AN ARRANGEMENT AND BELIEVE WE WOULD NEED ASSURANCES THAT THE ARRANGEMENT WOULD REMOVE THE POSSIBILITY OF AN IMMINENT BA WITHDRAWAL AND REDUCE THE PRESENT UPWARD PRESSURE ON FARES.END SUMMARY

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2. WHILE WE STILL LACK SUFFICIENT INFORMATION ON WHICH

TO BASE FIRM RECOMMENDATIONS, WE BELIEVE ANY USG POSITION ON THE PROPOSED IGS ROUTE SWAP WILL HAVE TO TAKE ACCOUNT OF THE FACTORS SET OUT BELOW. OUR ANALYSIS PRINCIPALLY REFLECTS THE SITUATION AS SEEN FROM HERE AND MAKES NO ATTEMPT TO EVALUATE THE IMPORTANCE OF THIS MOVE TO PAA'S OVERALL FINANCIAL POSITION.

3. THE IGS AS AN ALLIED MONOPOLY--A RECURRING COMPLAINT HEARD FROM GERMAN MEDIA AND OFFICIALS WHEN IGS MATTERS, PARTICULARLY FARE INCREASES, ARE DISCUSSED (THE FACTS THAT SERVICE IS BETTER AND FARES ACTUALLY LOWER THAN FOR INTRA-WEST GERMAN SERVICES ARE OFTEN CONVENIENTLY FORGOTTEN.) THE REMOVAL OF THE LAST VESTIGES OF IGS COMPETITION WILL NO DOUBT HEIGHTEN GERMAN ANNOYANCE WITH THIS ASPECT OF THE BERLIN SERVICES. WHATEVER THE ECONOMIC IMPACT OF THE PROPOSED MOVE (SEE BELOW), THE REALISTIC ALTERNATIVES ARE NOT WITHOUT PROBLEMS. THE MAINTENANCE OF THE STATUS QUO WILL REQUIRE SOME COMBINATION OF INCREASED FARES AND AUGMENTED FRG FINANCIAL SUPPORT. GIVEN THE UNCERTAINTY OF THE LATTER AND THE UPWARD LIMIT ON FARES INHERENT IN THE IGS MARKET, IT IS POSSIBLE THAT AT SOME POINT BA WOULD HAVE TO WITHDRAW, LEAVING THE ENTIRE SERVICE TO PAA. (ASSUMING PAA STILL HAS THE FINANCIAL RESOURCES TO EXPAND ITS SERVICES). ALTHOUGH WE CAN ENVISAGE REAL ECONOMIC BENEFITS TO SUCH A SITUATION, THERE ARE OBVIOUS POLITICAL DISADVANTAGES TO TURNING THE IGS INTO ESSENTIALLY A BILATERAL US/FRG CONCERN.

4. IMPACT ON IGS ECONOMICS--THE IMMEDIATE COST SAVINGS FROM THE CLOSURE OF INSTALLATIONS AND SOMEWHAT REDUCED FREQUENCIES ARE OBVIOUS. WHETHER THE CARRIERS WOULD CONTINUE TO REALIZE SIGNIFICANT SAVINGS OVER THE LONGER TERM IS LESS CERTAIN AND WE WOULD BE INTERESTED IN SEEING AIRLINE FORECASTS. WE WONDER IF CONCENTRATING THE EFFECTS OF BA'S RELATIVELY LESS EFFICIENT OPERATIONS ON THE ROUTES IT SERVES EXCLUSIVELY MIGHT NOT LEAD TO FUTURE DIFFICULTIES, CONFIDENTIAL

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E.G., PRESSURE FOR HIGHER FARES ON SHORTER RUNS SERVED BY BA. MOREOVER, THE BA/AF POOLING ATTEMPT, WHICH HAD SOME SIMILARITIES WITH THE PRESENT PROPOSAL, WAS A FINANCIAL FAILURE. FOR THE PRESENT, HOWEVER, WE SHOULD PROBABLY ASSUME THAT THE SWAP AGREEMENT WOULD TEND TO CUT AGGREGATE IGS EXPENSES.

5. EFFECT ON FARE INCREASE APPLICATION AND SUBSIDIES--

FRG BCATAG REPS HAVE REPEATEDLY TOLD US THE IGS
MUST BE TREATED SEPARATELY FROM THE AIRLINES' OTHER
OPERATIONS. WE THINK IT UNREALISTIC, THEREFORE, TO
ASSUME THAT THE GERMANS WOULD TAKE KINDLY TO A
SITUATION IN WHICH SAVINGS REALIZED ON THE IGS WERE
NOT SEEN TO BE APPLIED TO THE BENEFIT OF THE BERLIN
TRAVELLING PUBLIC (THROUGH LOWER FARES) AND THE

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GERMAN TAX PAYER. SINCE OUR PRESENT DATA WOULD
INDICATE THAT THE FIVE MILLION DOLLAR SAVINGS PAA
EXPECTS FROM THE SWAP PROPOSAL WOULD REPRESENT THE
GREATER PART OF THE ADDITIONAL REVENUE IT NEEDS TO
REALIZE A SIX PERCENT OPERATING PROFIT IN 1975, OUR
FARE CASE AS PRESENTLY FORMULATED WOULD BE GREATLY
WEAKENED AS FAR AS PAA IS CONCERNED. BA'S SITUATION
IS, OF COURSE, MUCH LESS FAVORABLE AND A FARE INCREASE
AT THE PRESENT LEVEL COULD PROBABLY STILL BE

ECONOMICALLY JUSTIFIED. THE SUBSIDY QUESTION IS EVEN LESS CLEAR AND WE WOULD BE INCLINED TO SEEK ADDITIONAL SUPPORTING EVIDENCE FROM THE BRITISH AS TO THE NEED FOR AND THE LEVEL OF ANY INCREASED SUBSIDY.

6. IMPLICATIONS FOR US INTERESTS IN BERLIN AND FRG--
ON THE BASIS OF WHAT WE KNOW ABOUT THE SWAP PROPOSAL TO DATE, WE SEE NO SERIOUS PROBLEMS ARISING FOR THE
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VIABILITY OF THE CORRIDOR REGIME. AS POINTED OUT IN THE AIRLINES' PRESS STATEMENT BOTH CARRIERS WILL CONTINUE FLYING IN ALL THREE CORRIDORS. MORE IMPORTANTLY, PAA DIRECTOR RUNNETTE HAS INDICATED THAT THE AGGREGATE LEVEL OF FLIGHTS WILL NOT BE NOTICEABLY LOWER THAN OTHERWISE WOULD BE THE CASE (WE WILL, OF COURSE, WANT TO CHECK SCHEDULES CAREFULLY TO CONFIRM THIS FACT). THE DISMISSAL OF 100 OF PAA'S EMPLOYEES COULD CAUSE SOME DIFFICULTIES FOR THE AIRLINE. IF THE SWAP ARRANGEMENT IS IMPLEMENTED AS ENVISAGED US CARRIERS WILL BE ASSOCIATED WITH ABOUT 350 LOST JOBS WITHIN A RELATIVELY SHORT TIME (THIS INCLUDES 250 TWA EMPLOYEES RELEASED AS A RESULT OF THE PAA/TWA ROUTE SWAP). GIVEN PRESENT ECONOMIC CONDITIONS THIS IS AN INOPPORTUNE TIME TO DISMISS PERSONNEL AND WE ARE INCLINED TO EXPECT THAT THE CARRIERS WOULD EXPERIENCE RATHER SERIOUS LABOR DIFFICULTIES OVER THE NEXT FEW MONTHS. (RUNNETTE HAS ALREADY HINTED THAT HE IS HAVING HIS TROUBLES ON THE LABOR FRONT). WE ALSO THINK THE SENAT AND FRG WILL PROBABLY HAVE MORE TO SAY ON THE LABOR QUESTION, IF ONLY FOR THE RECORD AND THE FORTHCOMING ELECTIONS IN BERLIN.

7. IMPLICATIONS FOR TRIPARTITE CONTROL OF BERLIN AIR SERVICES - IF ROUTES ARE DIVIDED BETWEEN THE CARRIERS WE THINK SOME ATROPHY OF US INFLUENCE IN ADMINISTERING BA'S SERVICES WOULD BE INEVITABLE. THE CONSEQUENCES ARE UNFORESEEABLE, BUT WE THINK TOO GREAT A POLARIZATION OF INTERESTS WITH THE BRITISH WOULD BE UNHEALTHY, SINCE WE BELIEVE THE US HAS SERVED AS A RESTRAINING INFLUENCE PARTICULARLY WHERE THE TACTICS TO BE EMPLOYED WITH THE FRG ON IGS MATTERS HAVE BEEN CONCERNED. OF MORE IMMEDIATE IMPORTANCE, RECENT CARRIER INITIATIVES ON THE FARE INCREASE APPLICATION AND THE SWAP AGREEMENT DISCLOSURES HAVE LEFT OUR FRENCH AND GERMAN COLLEAGUES WITH THE IMPRESSION THAT WE HAVE DELIBERATELY WITHHELD INFORMATION OR HAVE LITTLE

INFLUENCE ON HOW THE AIRLINES DEAL WITH QUESTIONS OF
CONSIDERABLE POLITICAL INTEREST TO THE ALLIES AND
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THE FRG. IN OUR OBSERVATION, PREEMPTIVE MOVES BY
THE CARRIERS HAVE WORKED TO THEIR DISADVANTAGE BY
MAKING IT MORE DIFFICULT TO GAIN ALLIED UNANIMITY AND
GERMAN CONCURRENCE WHEN REQUIRED. WHILE WE HAVE
LONG SUPPORTED PAA'S RIGHT TO MAKE ITS OWN MANAGEMENT
DECISIONS ON SCHEDULING ETC., AGAINST OUR COLLEAGUES'
PROTESTS, PRESENTLY
UNSETTLED IGS MARKET CONDITIONS WOULD SEEM TO CALL
FOR TIGHTER ALLIED CONTROL. THIS STRIKES US AS
PARTICULARLY SO IF THE COMPETITIVE ELEMENT ON THE IGS
IS FURTHER ERODED THROUGH A ROUTE DIVISION. WE
WOULD, THEREFORE, BE INCLINED TO SET OUT REASONABLY
STRONG GUIDELINES RE FUTURE CARRIER RESPONSIBILITIES
FOR CONSULTING WITH THE CAA'S AND CAPITALS ON IGS
MATTERS AS PART OF OUR CONSIDERATION OF THE PRESENT
SWAP PROPOSAL.

8. CONCLUSIONS: AS NOTED ABOVE OUR TENTATIVE VIEW
IS THAT IMPLEMENTATION OF SOME SORT OF ROUTE SWAP
WOULD SOLVE SOME OF THE IMMEDIATE PROBLEMS FACING THE
IGS. ON THE OTHER HAND, WE SEE MANY NEW
PROBLEMS INHERENT IN SUCH AN ARRANGEMENT AND THE
PROPOSAL SHOULD RECEIVE EXTREMELY CAREFUL SCRUTINY.
WE WOULD EXPECT THAT THE UK WOULD FAVOR THE

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C O N F I D E N T I A L SECTION 03 OF 03 BONN 01798

ARRANGEMENT SINCE IT WOULD PROVIDE BA WITH ITS LONG
SOUGHT IGS OBJECTIVE, A TOTALLY PROTECTED MARKET.
ANY FAVORABLE US CONSIDERATION SHOULD REQUIRE BRITISH
ASSURANCES RE BA'S INTENTIONS ON STAYING IN THE
SERVICE AND CONTINUED TRIPARTITE CONTROL OF ALL THE
IGS. MOREOVER, WE WOULD WANT STRONG EVIDENCE THAT
THE PROPOSAL WOULD, IN FACT, MODERATE THE CHRONIC
UPWARD PRESSURE ON FARES. WE ALSO THINK IT IMPORTANT
THAT THE FRENCH BE GIVEN EVERY OPPORTUNITY TO
EXPRESS THEIR VIEWS ON THE MATTER, IDEALLY THROUGH
THE APPROPRIATE BONN FORUMS. OUR PRESENT THINKING
WOULD ALSO FAVOR SOLICITING GERMAN VIEWS ONCE WE
HAVE DEVELOPED SUFFICIENT INFORMATION FROM THE
AIRLINES BUT BEFORE A FINAL ALLIED DECISION IS TAKEN.
CARRIER COMMITMENTS PER PARA. 6 ABOVE SHOULD ALSO
BE PART OF THE FINAL EQUATION.

9. RE THE PENDING FARE INCREASE APPLICATION, GIVEN
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THE FACTORS SET FORTH IN PARA 4 ABOVE, WE TEND TO
THINK WE WILL NEED NEW AND FAIRLY DETAILED CARRIER
INPUT ON THE EFFECTS OF THE SWAP PROPOSAL IF WE ARE
TO MAXIMIZE OUR CHANCES OF GETTING SOME DEGREE OF
GERMAN CONCURRENCE. WHILE THIS WILL INVOLVE FURTHER
DELAY, WE SEE LITTLE ALTERNATIVE IF WE ARE TO AVOID
A CONFRONTATION WITH THE GERMANS ON THE ISSUE.
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